

An Analysis of Potential Impacts  
Resulting from a Possible Merger of the  
Orange County Schools and  
Chapel Hill-Carrboro City Schools

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Public Hearing  
October 23, 2003

# Major Milestones

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- **January 2003** – Commissioner Moses Carey proposed that the BOCC consider whether Orange County Schools and Chapel Hill-Carrboro City Schools should be merged
  - **March 2003** – BOCC adopted a CY 2003 goal (*Appendix A of report*) tasking staff to prepare an analysis of implications of a potential school merger
  - **April 2003** – Focus of merger evaluation narrowed primarily to legal, organizational, and financial considerations
  - **September 2003** – BOCC received staff analysis of potential impacts of school merger in Orange County
  - **October 2003** – BOCC conducts two public hearings to receive public comment regarding potential merger of OCS and CHCCS
  - **November 2003** – BOCC work session to consider citizen comments and further discuss potential merger
  - **December 2003** - additional public hearing
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# Report Availability

- Internet – [www.co.orange.nc.us](http://www.co.orange.nc.us); “Possible School Merger” button

<b>Northern &amp; Central Orange County</b>	<b>Chapel Hill, Carrboro &amp; Southern Orange County</b>
Government Services Center, 200 South Cameron Street, Hillsborough	Chapel Hill Public Library – 100 Library Drive, Chapel Hill
County Budget Office, 208 South Cameron Street, Hillsborough	Carrboro Branch Library, McDougle School, 900 Old Fayetteville Road, Chapel Hill
Orange County Schools Administrative Offices, 200 East King Street, Hillsborough	Chapel Hill-Carrboro City Schools Administrative Offices, Lincoln Center, 750 South Merritt-Mill Road, Chapel Hill
Orange County Public Library, Whitted Human Services Center, 300 West Tryon Street, Hillsborough	

# Public Input Opportunities

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**October 16, 2003 - 7:30pm**

Public Hearing @ Chapel Hill High School

**October 23, 2003 - 7:30pm**

Public Hearing @ Cedar Ridge High School

**December 4, 2003 - 7:30pm**

Public Hearing @ Battle Courtroom, Hillsborough

**E-mail to**

[possiblemerger@co.orange.nc.us](mailto:possiblemerger@co.orange.nc.us)

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# Scope of Analysis

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- Report is not a formal merger study or merger plan
  - Draws on statutory provisions, experience of jurisdictions that have considered and/or implemented merger
  - Intent of analysis is to present factual information rather than opinion
  - Examples of questions not addressed in analysis:
    - What school would my child attend in a merged system?
    - What programming (e.g. elementary foreign language instruction) would be available at individual schools?
    - Would savings be achieved by merging school systems and if so, how much?
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# Merger Consideration in Orange County

- **BOCC appointed School Merger Study Commission in 1985 to examine potential impacts of merger**
- **Recommendations of Study Commission (Appendix E)**
  - Equalize per pupil funding countywide
  - Fund construction of new schools based on cooperative facilities plan developed by both systems
  - Encourage school districts to investigate areas where economies may be affected by joint operations such as transportation, food service & maintenance
  - Encourage school districts to pursue areas of educational cooperation such as special services

# Collaboration Efforts

- Since 1988, funding for school construction and renovation projects has totaled \$277 million
  - Includes four voter approved school capital bond referenda (1988, 1992, 1997 and 2001)
- BOCC approved policies, standards and funding
  - Capital funding policy that earmarks annual non-debt revenues available for school and County capital projects
  - Construction and funding standards for elementary, middle and high schools
  - School construction impact fees to offset cost of new school construction
  - Schools Adequate Public Facilities Ordinance and Memorandum of Understanding (SAPFO) to pace development with the County's fiscal ability to build new schools
- Joint venture in bus transportation/maintenance/fueling

# Funding Equity Between Systems Remains a Challenge

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- In early 1990s, after examining numerous approaches and tax rate impacts associated with achieving funding equity between the two school systems, BOCC adopted “Equitable School Funding Goal”
  - Efforts in some years to reduce or hold the gap from growing have been impacted in recent years by need to raise CHCCS district tax rate to address new school startup costs
  - CHCCS special district tax accounts for funding disparity
    - Produces about \$12.5 million for FY 2003-04
    - Equates to about \$1167 per student in additional funds
  - Funding equity remains a challenge for the BOCC
    - In accordance with State statutory formula, local current expense funding for schools is driven by the number of students in a school district
    - Historically, annual student growth in CHCCS has outpaced OCS, leading to more dollars for CHCCS
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# Methods for School Merger in North Carolina

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# North Carolina Statutes Provide Four Ways to Merge School Systems (Appendix F)

## ■ **Merger of Units in Same County**

- Merger plan developed by boards of education; requires approval of board of county commissioners
- Merger plan requires approval by State Board of Education
- Merger plan may (or may not) be made contingent on voter approval

## ■ **Merger of Units in Adjoining Counties**

- Involves merger of county school units in one or more adjoining or contiguous counties with a city school administrative unit
- Requires approval of the “tax-levying body for the school units”

## ■ **Merger of units by local boards of education**

- City school unit notifies State Board that it is voluntarily dissolving itself
- State Board required to adopt a merger plan for the administrative unit
- No role for school board or commissioners in merger plan; no referendum

## ■ **County Commissioner Initiated Merger**

- Board of County Commissioners adopts plan for consolidation and merger of local administrative units located wholly within the county into a single unit

# County Commissioner Initiated Merger

- Preparation and approval of this type of merger consistent with a school administrative unit initiated consolidation and merger with **three basic exceptions:**
  1. County Commissioners must provide local funding for all students at the highest level of any local school administrative unit in the county during the preceding five fiscal years before the merger
  2. Boards of education “shall not participate by preparing, entering into, submitting, or agreeing to a plan”
  3. “The plan shall not be contingent upon approval of the voters”
- North Carolina General Statute § 115C-67 provides that after the plan of consolidation and merger is approved by the State Board of Education, it “shall be deemed to have been made by authority of law and shall not be changed or amended except by an act of the General Assembly.”

# Merger Timetable

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- Individual merger plans detail their own timetable
    - State Board does not specify a schedule for implementation
  - For purposes of this analysis, the following hypothetical timeframe has been used:
    - Year 1 – Board of Commissioner decision regarding merger
    - Year 2 – Should the BOCC decide in favor of merger, Year 2 would be a year for transition activities to occur
    - Year 3 – Merger would take effect July 1
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# School Board Composition and Roles

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# Merger Plan Components Regarding a New Board of Education

- Merger plan must address structure of merged system board, including composition, terms, organization, etc.
- Election by
  - District method
  - At-large method
  - Combination of district and at-large
- Elections may be on either partisan or non-partisan basis

# Responsibility for Operation of Schools During Merger

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- In reviewing other jurisdictions' merger studies and plans, there appears to be some variation and flexibility
  - Examples include:
    - Existing school boards continue to operate for some defined period
      - Either through the end of the current fiscal year or until the effective date of merger
    - Interim board may be appointed by BOCC for a period of time, such as one fiscal/academic year
      - Focus on decisions that must be made and implemented no later than the effective date of merger
      - Composition of board tailored to specific circumstances of individual mergers
      - Typical for merger plan to specify that certain number of interim board members will be appointed from existing boards and that the Board of Commissioners may decide to appoint one or more members of their choosing to the interim board
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# Selection of Superintendent for Merged System

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- Merger plans reviewed by Orange County staff reserved selection of a superintendent for a newly merged system to the interim board of education and the newly created permanent board of education
  - No role for the Board of County Commissioners or the existing school boards
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# State Funding of Merged System

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- Merged units continue to receive existing State allotments of funds for two fiscal years following the effective date of merger for the following functions:
    - Central office administration
    - Vocational education
    - Special needs
    - Limited English proficiency (LEP)
  - For example, although there would be only one superintendent position in a newly merged unit, State funding would continue for two years for any other superintendent positions that may have existed in the other school systems prior to merger
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# Role of State Board of Education in Commissioner Initiated Merger

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- State Board's critical role is to review and approve the merger plan
  - Process for approval
    - Board of Commissioners adopts a merger plan and transmits it to the State Board for consideration at its next meeting
    - Typically, merger plan reviewed and approved within two meetings of the State Board
  - Approval of merger plan has effect of law
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# Programmatic Considerations

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- \* Information compiled by CHCCS and OCS staffs
- \* Comparison of twelve major program areas outlined in report
- \* Program details included at Appendix K



# Financial Considerations

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# Context Of Financial Analysis

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- Most local school funding (e.g. current expense, capital) is now provided on a per pupil basis
  - Staff analysis focused on the funding difference between systems related to CHCCS district tax
  - Post-merger funding must be at highest five year historical per pupil rate upon effective date of merger
  - Analysis based on reasonable assumptions, but other scenarios are possible
  - Focus on “scope and scale” of potential financial impacts, not precise figures – “tax rate” impacts rather than “tax bill” impacts
  - “Hold harmless” assumption does not imply no increases in other aspects of education funding – that would be an annual budget process decision by the BOCC
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# Tax Rate Impact Of Hypothetical School Merger

## ■ Major assumptions

- Effective date of July 1, 2005
- Produce same \$1,167 per pupil as CHCCS district tax does in 2003-04
- Uses certified student membership estimates derived from SAPFO forecasting models
- CHCCS district tax proceeds replaced for 2005-06 with countywide funding proceeds; district tax rate at zero
- Four year revaluation cycle continues, leading to lower required tax rates in later years

## ■ **Estimated Countywide tax rate increase of 17 cents per \$100 assessed valuation**

# Mathematical Calculation of Amount of Funding Required for Merger *(Appendix M)*

**Step 1 - Calculation of Funding Required for Merger.** *Multiply:* Per Pupil Funding Projected from CHCCS Special District Tax by Total Projected Student Membership for School Year 2005-06

Per Pupil Funding Projected from CHCCS Special District Tax		\$1,167
Per Pupil Funding by Total Projected Student Membership for School Year 2005-06	X	18,299
<b>Equals:</b> Total Amount of Funding Required to Provide Equal Per Pupil Funding for CHCCS and OCS Students	=	\$21,354,933

**Step 2 - Calculation of Projected Tax Rate Impact to Fund Merger.** *Divide:* Total Amount of Funding (From Step 1 above) by Projected Amount from One Cent on Countywide Property Tax for Fiscal Year 2005-06

Total Amount of Additional Funding Required from a Countywide Source to Provide Equal Per Pupil Funding for CHCCS and OCS Students		\$21,354,933
Projected Amount Generated by One Cent on Countywide Property Tax for Fiscal Year 2005-06		\$1,255,153
<b>Equals:</b> Projected Tax Rate Increase to Fund Merger July 1, 2005	=	17.0 cents per \$100 of assessed valuation

# Mathematical Calculation of Amount of Funding Required for Merger

*(If Merger Had Occurred July 1, 2003)*

**Step 1 - Calculation of Funding Required for Merger.** *Multiply:* Per Pupil Funding Projected from CHCCS Special District Tax by Total Projected Student Membership for School Year 2003-04

Per Pupil Funding Projected from CHCCS Special District Tax		\$1,167
Per Pupil Funding (Step 1) by Total Projected Student Membership for School Year 2003-04	X	17,414
<b>Equals:</b> Total Amount of Funding Required to Provide Equal Per Pupil Funding for CHCCS and OCS Students	=	\$20,322,138

**Step 2 - Calculation of Projected Tax Rate Impact to Fund Merger.** *Divide:* Total Amount of Funding (From Step 1 above) by Projected Amount from One Cent on Countywide Property Tax for Fiscal Year 2003-04

Total Amount of Additional Funding Required from a Countywide Source to Provide Equal Per Pupil Funding for CHCCS and OCS Students		\$20,322,138
Projected Amount Generated by One Cent on Countywide Property Tax for Fiscal Year 2003-04		\$974,876
<b>Equals:</b> Projected Tax Rate Increase to Fund Merger July 1, 2003	=	cents per \$100 of assessed 20.8 valuation

# Estimated Tax Bill Impacts Related to Merger

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- CHCCS district tax assumed at zero as Countywide tax increases by 17 cents per \$100 valuation
  - Generally speaking, post-revaluation impacts of merger should be minor on tax bills of properties in the CHCCS district that appreciate around assumed average of 25%
  - Examples of net increase in annual tax bills of properties of various taxable values in the OCS district:
    - \$100,000 - \$170
    - \$200,000 - \$340
    - \$300,000 - \$510
    - \$400,000 - \$680
  - Changes in individual property tax bills will be affected by actual changes in property value as of January 1, 2005 revaluation
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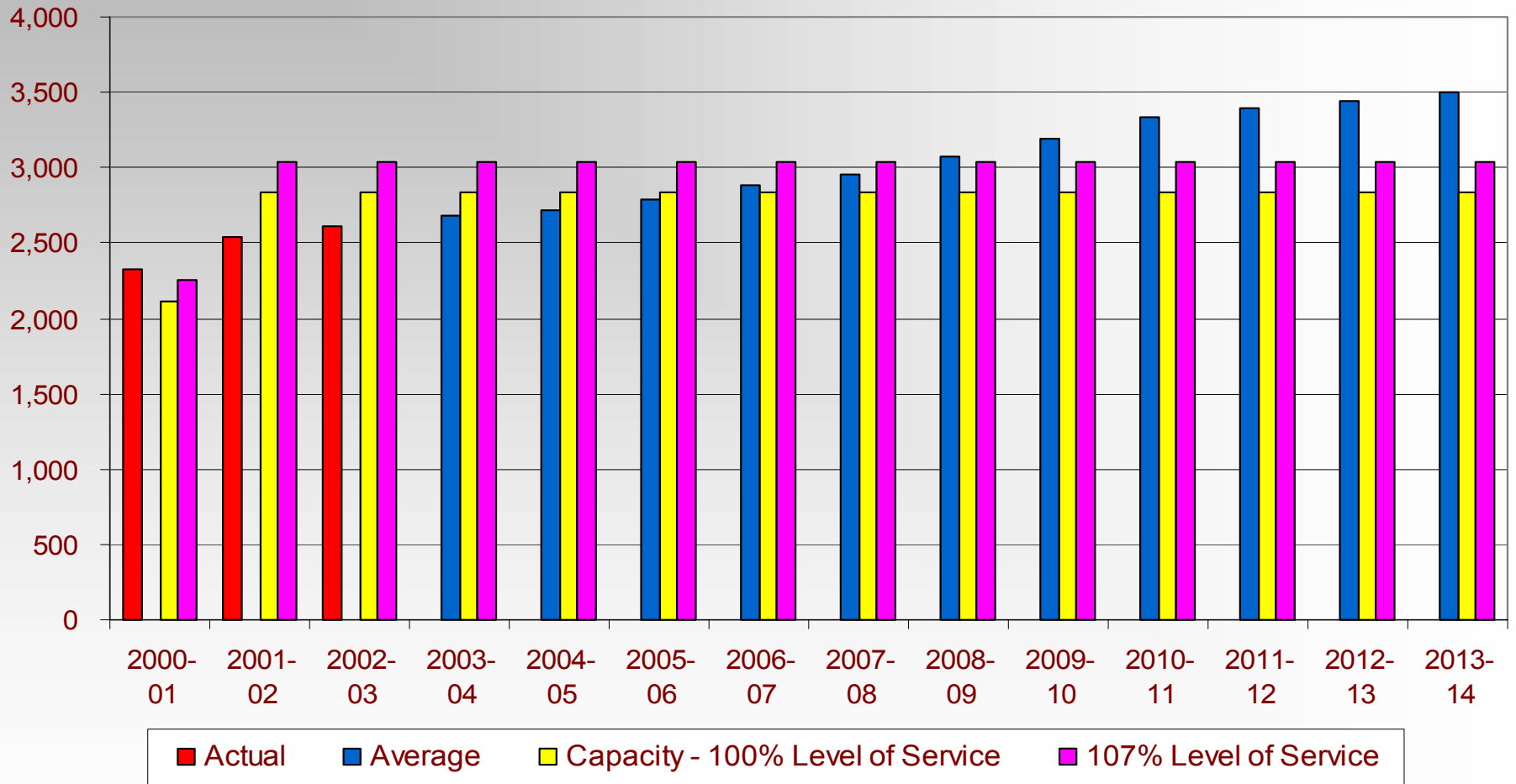
# Other Potential Financial Implications

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- Affect on percentage of General Fund budget earmarked for education and 48.1% target
  - Future disposition of CHCCS district tax unresolved
  - Combined available building capacity could allow unused space to be filled through student reassignment
  - With addition of new capacity already “in the works”, further new school opening timelines could be delayed beyond current 10 year CIP cycle
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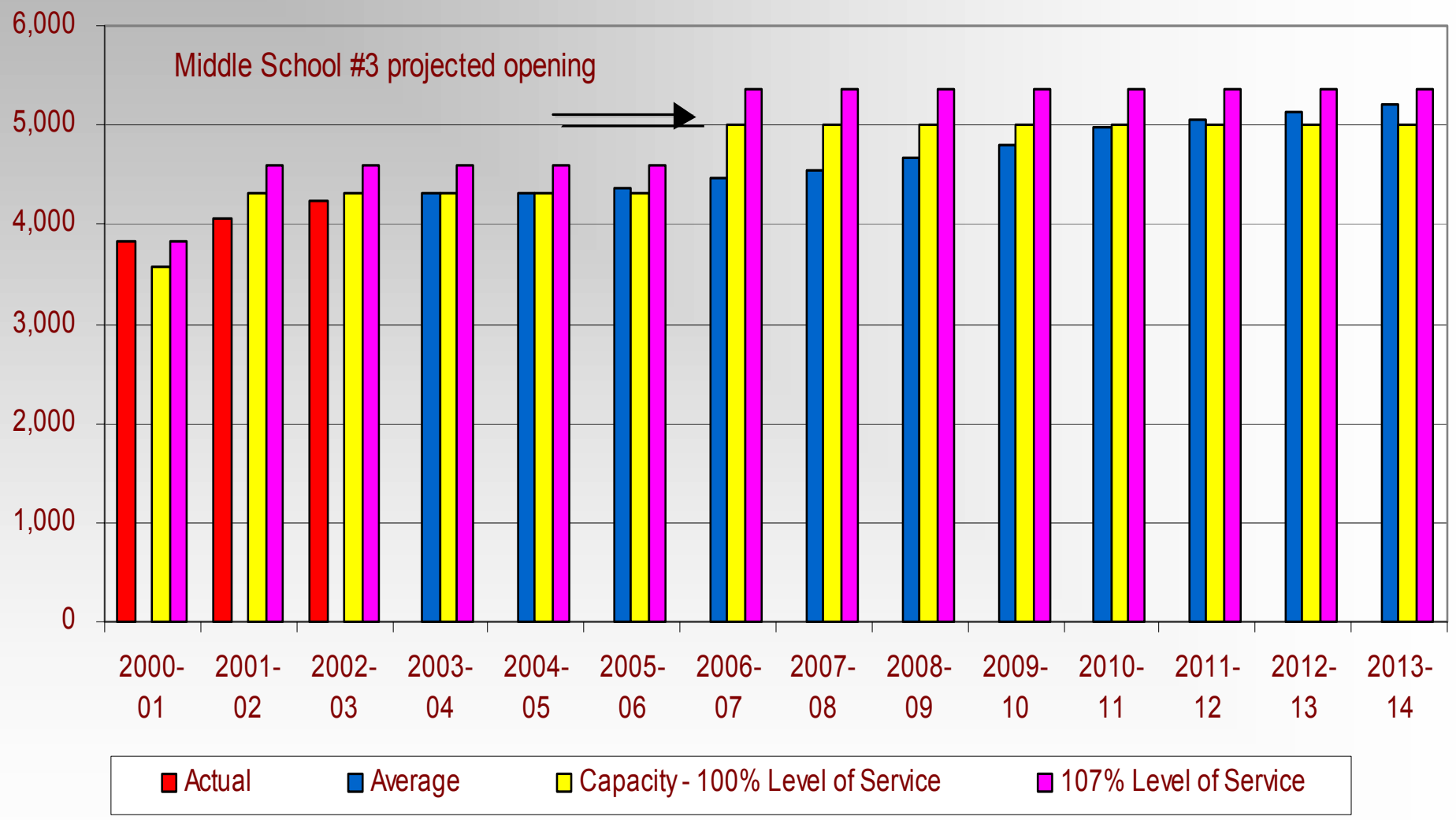
# CHCCS Middle School Student Projections

## Average Projection Model Only



# Combined Middle School Student Projections

## Average Projection Model Only



# Other Approaches To Equalizing Funding

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- Countywide Supplemental Tax
  - Increase Countywide Ad Valorem Tax Rate
    - Financial implications essentially the same as for Countywide supplemental tax
  - Implementation of Orange County Schools Supplemental Tax
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# Hypothetical Countywide Supplemental Tax

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- Could be part of a merger plan, or an alternative thereto
  - BOCC may initiate, or may pursue in response to Board of Education-approved petition
  - In either case, subject to affirmative vote in referendum
  - Proceeds distributed on per pupil basis
  - General Assembly has previously approved legislation permitting implementation of a countywide tax without a referendum
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# Hypothetical Countywide Supplemental Tax

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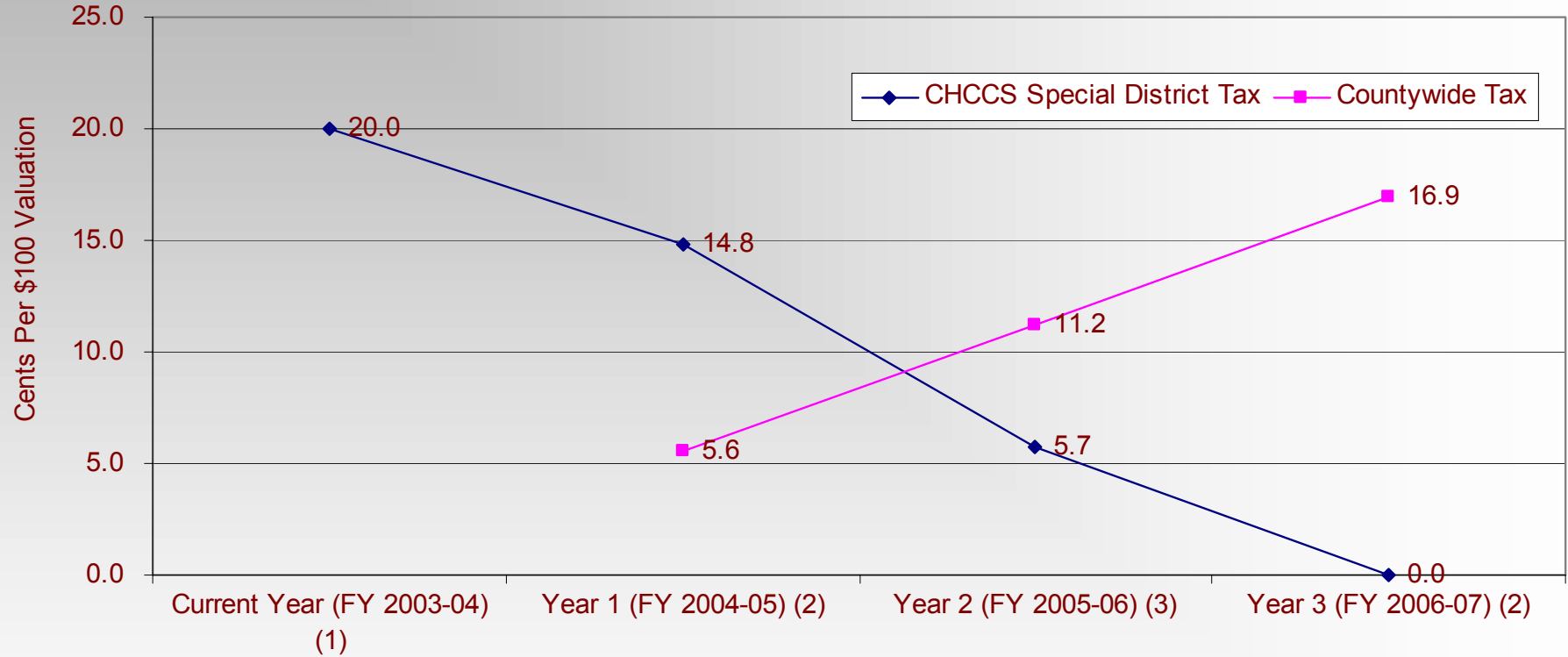
## ■ Major Assumptions:

- CHCCS district tax incrementally reduced to zero
- CHCCS “held harmless” by continued funding of \$1,167 per pupil
- Tax base growth of 3% in non-revaluation years, 25% in revaluation years (2005, 2009, 2013)
- “revenue neutral” tax rate adjustments in revaluation years lead to lower tax rates in out years
- Student membership based on certified SAPFO projections

## ■ Estimated tax rate impacts

- 3 year scenario – 16.9 cents
  - 5 year scenario – 16.5 cents
  - 10 year scenario – 10.6 cents
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# Three Year Scenario to Achieve Equitable Funding with Countywide Tax

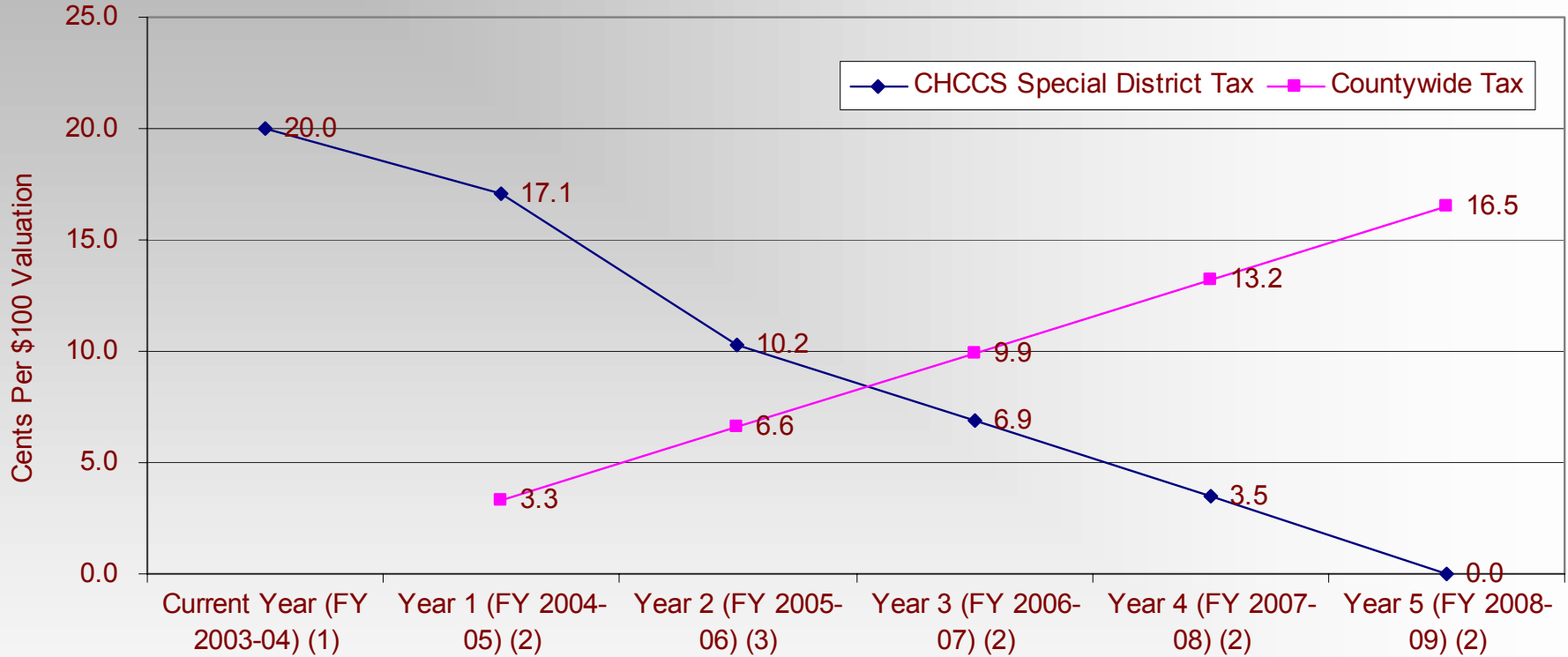


(1) Assessed property valuation used in calculating County's approved FY 2003-04 property tax collection estimates (for budgetary purposes)

(2) Non-revaluation year; projected annual growth rate assumed at 3%

(3) Revaluation year; projected annual growth rate assumed at 25%

# Five Year Scenario to Achieve Equitable Funding with Countywide Tax

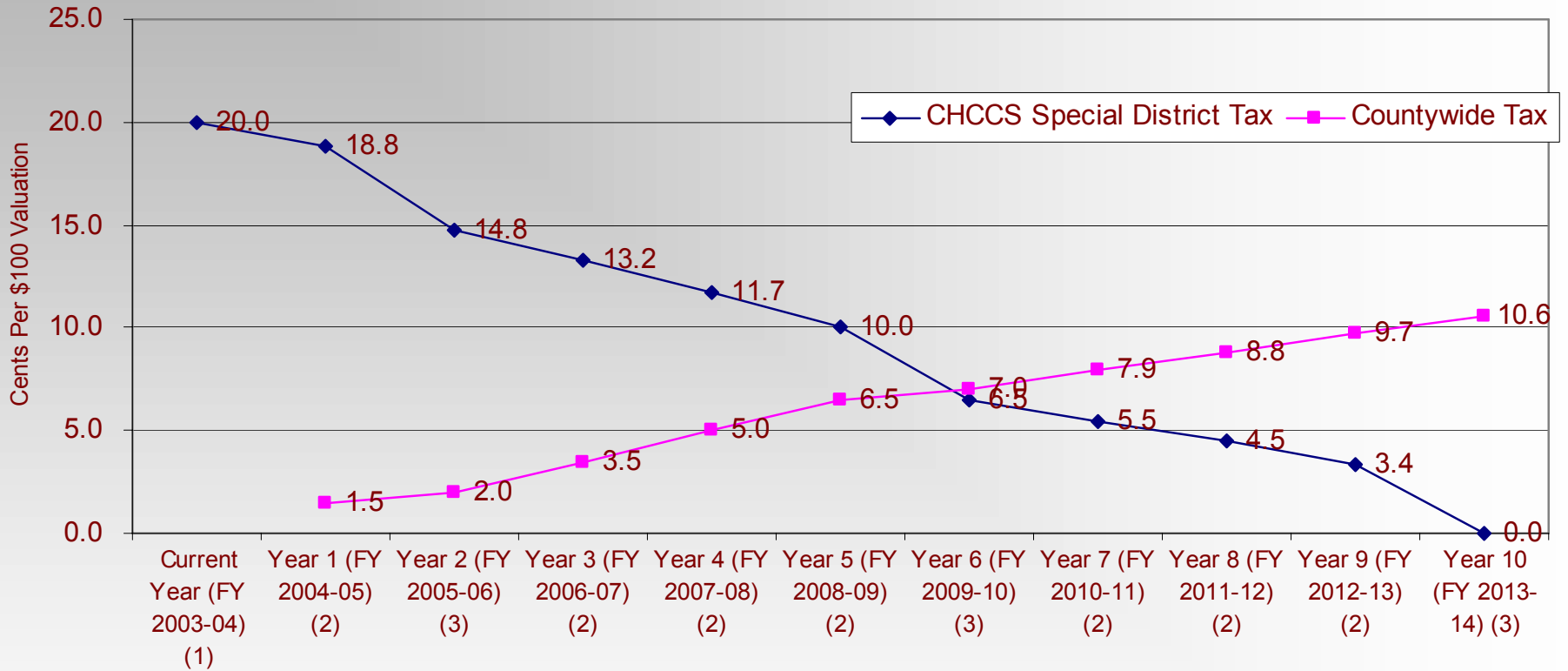


(1) Assessed property valuation used in calculating County's approved FY 2003-04 property tax collection estimates (for budgetary purposes)

(2) Non-revaluation year; projected annual growth rate assumed at 3%

(3) Revaluation year; projected annual growth rate assumed at 25%

# Ten Year Scenario to Achieve Equitable Funding with Countywide Tax



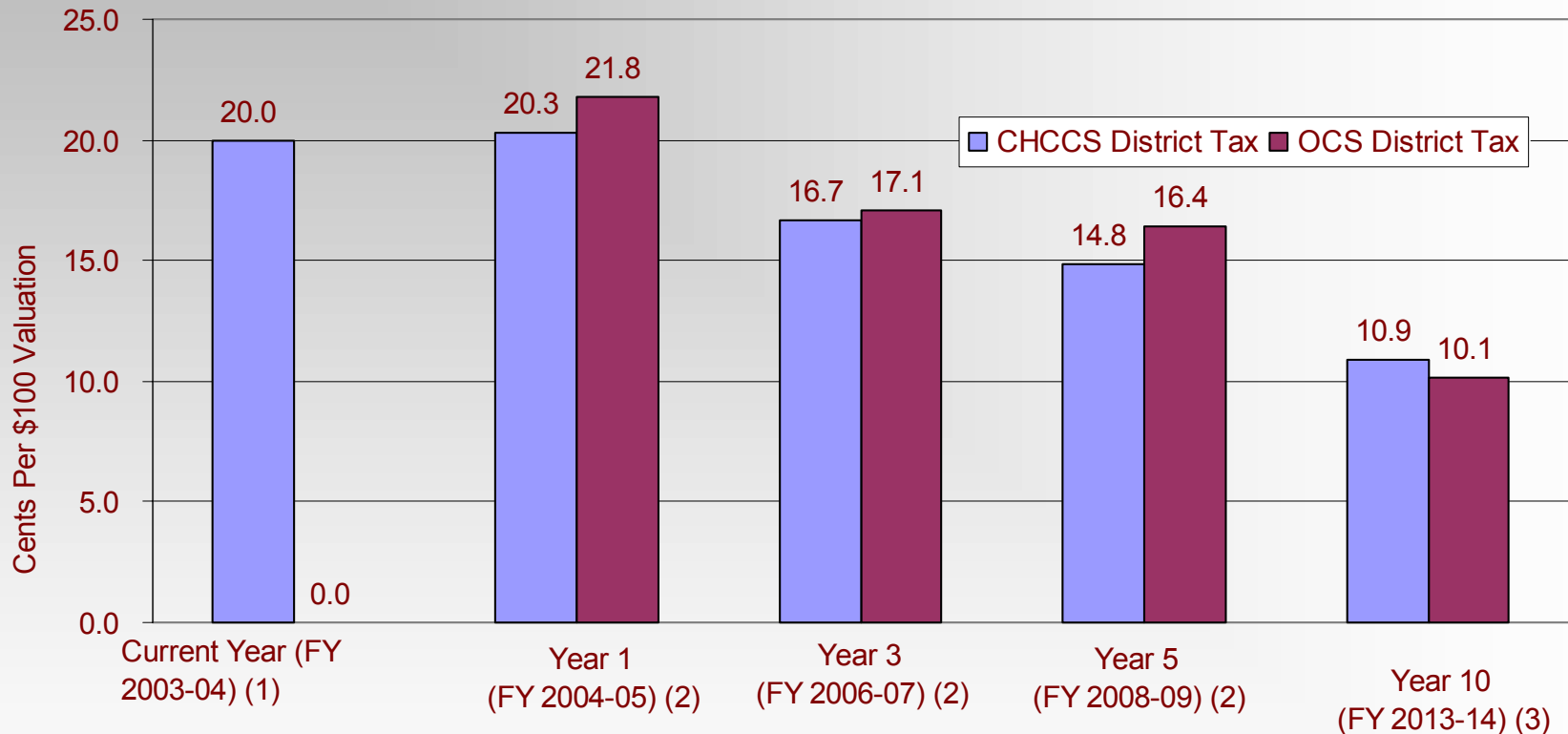
- (1) Assessed property valuation used in calculating County's approved FY 2003-04 property tax collection estimates (for budgetary purposes)
- (2) Non-revaluation year; projected annual growth rate assumed at 3%
- (3) Revaluation year; projected annual growth rate assumed at 25%

# Hypothetical OCS District Tax (Appendix P)

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- Requires majority vote in referendum; maximum rate of 60 cents per \$100 valuation
  - Would take effect fiscal year following vote
  - Board of Commissioners may initiate election; must call for election if school board petitions
  - Would operate simultaneously with CHCCS district tax; assumes CHCCS is “held harmless”; BOCC establishes tax rate annually
  - One cent on an OCS district tax would generate less than one cent on CHCCS district tax
  - Estimated 2003-04 tax rate needed to generate \$1,167 per pupil would have been 22.4 cents
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# Hypothetical Tax Rates Necessary to Provide Equal Per Pupil Funding from CHCCS and Possible OCS District Taxes



(1) Assessed property valuation used in calculating County's approved FY 2003-04 property tax collection estimates (for budgetary purposes)

(2) Non-revaluation year; projected annual growth rate assumed at 3%

(3) Revaluation year; projected annual growth rate assumed at 25%



# Some Frequently Asked Questions.....

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# Frequently Asked Questions

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- **Q: Why are the tax rate impacts cited in the staff analysis smaller over longer periods of time?**
  - *A: Because of the impacts of revaluation. In the year after a revaluation, one cent on the tax rate produces significantly more than it did the year before. The BOCC uses a “revenue neutral” tax rate after revaluation. When the tax base goes up, the tax rate goes down, to bring in the same amount of revenue. Orange County conducts revaluations of all real property every four years. There are scheduled revaluations in 2005, 2009, and 2013.*
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# Frequently Asked Questions

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- **Q: How would merger affect my tax bill?**
  - *A: For taxpayers in the CHCCS district, probably not significantly. For tax payers in the OCS district, since there currently is no OCS district tax, the impact from an increase over time in countywide taxes associated with merger would be significant, from most people's perspective.*
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# Frequently Asked Questions

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- **Q: Would merger undermine the Schools Adequate Public Facilities Ordinance?**
  - *A: No. While some minor modifications might be needed structurally, the major provisions of SAPFO would remain in place.*
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# Frequently Asked Questions

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- **Q: How is the County's tax base split between the school systems?**
  - *A: The estimated countywide property tax base for 2003-04 is \$9.89 billion. Of that amount, \$6.34 billion (64.1%) is within CHCCS; \$3.55 billion (35.9%) is within OCS.*
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# Frequently Asked Questions

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- **Q: Where are the registered voters in Orange County?**
  - *A: Statistics as of October 7, 2003 reflect just over 80,000 registered voters. 65.4% of these reside within the Chapel Hill-Carrboro Schools district, and 34.6% live in the Orange County Schools district.*
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# Frequently Asked Questions

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- **Q: Where do our schools rank in per pupil funding?**
  - *A: According to annual reports of the North Carolina Public School Forum, Orange County has ranked first among the 100 counties every year since 1997 in per pupil expenditures for current expense and capital. Table 25 of the DPI “Statistical Profile 2003” indicates that among the State’s 117 school systems, OCS ranks 4<sup>th</sup> in local per pupil expenditures, and 17<sup>th</sup> in total (state/federal/local) per pupil expenditures. CHCCS ranks 1<sup>st</sup> and 5<sup>th</sup>, respectively.*
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# Frequently Asked Questions

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- **Q: Have voters in the Orange County Schools district repeatedly defeated the creation of a supplemental school tax in OCS?**
  - *A: Orange County Board of Elections files indicate that since records have been maintained there beginning in 1969, there has been no referendum on this question. OCS voters have neither approved nor defeated a special district tax.*
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